Manitoba Agriculture

formation Update

A Guide To

LIFE INSURANCE FOR MANITOBA FARMERS

Date: March, 1998

Life insurance is more important for farmers than for wage earners since it is not only for their family's protection -- but also to protect the entire farm business. Life insurance plans should be coordinated with family wills, and with an overall estate plan that details how the farm will be passed to the next generation, and how each family member is to be treated.

1. WHY LIFE INSURANCE?

The primary purpose of life insurance is to protect dependents financially in the event of premature death. A life insurance policy should allow survivors to meet the immediate expenses required of them, such as funeral costs, medical-related bills, legal fees, outstanding bills and settlements of partnerships and other business ventures. It can allow a spouse, especially the wife, to continue to operate the farm until decisions are made as to the future of the business (e.g. children old enough to take over). As well, and perhaps more importantly, the family should be able to maintain a comfortable standard of living and meet the long-term expenses associated with raising children.

As well, there are also other reasons for life insurance. It can be used to:

- fund the intergenerational transfer of the farm business;
- guarantee insurability in case the insured might have a change of health status;
- provide a forced savings plan;
- pay off mortgages;
- provide assurance to lenders for debt payment (assign as collateral);
- provide benefits for charity(ies);
- create an estate for beneficiaries;
- buy out the heirs of a business partner;
- provide emergency funds - borrow against value (whole-life or universal life only);
- act as a tax shelter;
- guarantee funding for children's education.

Do You Want Life Insurance:

- to enhance future family financial viability?
- to benefit a charity or a community project?

Your life insurance needs will change according to your stages in life and responsibilities.

The Life Insurance Life Cycle

- ***Child***

Children generally do not need to be insured, but some parents purchase a policy to guarantee future coverage. For example, if the child were to develop a serious illness later in life, coverage that would otherwise be denied would already be in place. Unless your family medical history points to this possibility, a policy on your child does not need to be a priority. Price of insurance is fixed for child's life. You may wish to consider coverage for funeral expenses.

- ***Single Person***

At this stage, a person does not have a pressing need for life insurance, but many choose to carry a small policy in order to cover funeral expenses and settle the estate. It also establishes insurability and a lower cost base. Life insurance for business purposes may be important.

- ***Childless Couple***

Couples who have two incomes and no children may choose not to carry life insurance; however, business and tax situations may apply.

Providing you and your spouse are each self-supporting, you may choose to each carry just a small policy that will cover funeral expenses. However, if one spouse is dependent on the other, the income-earner should carry protection for the non-income earner. It could be used as a tax shelter strategy. First-to-die mortgage coverage would provide the survivor with a debt-free home.

- ***Expanding Family***

As raising a family is expensive, adequate protection is becoming more of a necessity rather than a luxury. Your need begins when your first child is conceived and peaks with your last child.

The cost of raising one child to adulthood in Canada is estimated to be over $200,000. If you multiply that figure by the number of children in your family, you can see why the loss of the family income would seriously threaten your family's financial security.

If both spouses contribute to the family income, both should be insured. If just one is the income-earner, then that person should be insured. Many people also take out an additional policy to cover the cost of hiring someone to perform the non-income earner's household duties. If the farmer dies, there is the need to replace that person's contribution to the business.

- ***Retired Couple***

Retired couples usually have different needs for life insurance. If you have maintained a sufficient amount of life insurance to provide for your spouse, it may be able to be used to maximize your pension, annuity or other retirement income. Insurance can also be useful for tax settlement and equalizing inheritances.

Plan for the future and change only when necessary.

Assessing Your Life Insurance Needs

Your family is unique because it has its own interests, needs, wants, values and goals. As a result, your insurance requirements are also unique. The worksheet on page 4 will help you assess your family's life insurance needs before you contact or meet with a life insurance agent. That way, you'll be better equipped to discuss your needs and make a wise decision.

Your Life Insurance Needs - Worksheet

Date: _____

Immediate Needs

These are one-time costs associated with the death of the income-earner (farmer)

- **Settlement of the Estate** $_____
  - *Legal fees are usually based on your asset values, and can range from 1% to 3% of your assets. For larger estates, the fee is usually negotiable.*
  - *Probate fees will cost an initial $20, plus an additional $5 per $1,000 if your assets are over $5,000.*
  - *Land transfer fees vary according to value of the property.*
  - *Executor fees usually range between 1% and 3% of your estate.*
- **Income taxes** $_____
  Capital gains tax, property taxes, any back taxes, etc.
- **Funeral Costs** $_____
  Anywhere from $1,600 to $5,000 depending on the options.
- **Uninsured Medical Costs** $_____
  Some money should be allotted to cover medical expenses that are not covered by the province or by additional medical insurance you might have.
- **Repayment of Debts** $_____
  The balance owing on uninsured loans for land, machinery, buildings, equipment, operating expenses or personal items. Also uninsured mortgages and any credit card debt.
- **Contingency Fund** $_____
  Immediate cash required for survivors until the estate is settled.

TOTAL IMMEDIATE NEEDS

Assets

A calculation of your assets is now needed in order to determine what portion of the above total can be met.

- **Land, Buildings and Improvements** $_____
  Should be included only if the family is not planning to continue farming and all will be sold.
- **House** $_____
  Should be included only if your family will not live there and it is to be sold. Do not include if it is located on the farm.
- **Farm Machinery and Equipment** $_____
  Total market value of machinery equipment that would be sold.
- **Car(s), Truck(s)** $_____
  Total market value of any vehicles that would be sold.
- **Other Farm Assets** $_____
  Includes the value of accounts receivable and grain tickets.
- **Farm Inventories** $_____
  Livestock, feed, grain, supplies, etc.
- **Cash** $_____
  - *Cash on hand* $_____
  - *Chequing account* $_____
  - *Savings account* $_____

Future Needs

- **Family Expense Fund** $_____
  Includes basic living expenses such as food, clothing, rent, child care, utility bills, etc. (not mortgage or loan payments).
  First, calculate yearly expenses by estimating monthly expenditures and multiplying by 12. Subtract the spouse's contribution, if applicable. Then multiply yearly expense figures by the projected number of years, taking into account after-tax interest earnings and inflation. The following example and the chart on the following page will should you how to do this:
  - *$15,000 per year needed for next 20 years.*
  - *Interest earnings after tax estimated at 6%; inflation rate estimated at 3%. Adjusted interest rate is 6% - 3% = 3%.*
  - *Refer to Present Value table on following page, which will accurately add the time factor into your calculations. It will tell you, in this case, how much you need to invest today at an interest rate of 3%, in order to receive $1 per year over the next 20 years. The amount is $14.8774.*
  - *Now, multiply the living expense figure of $15,000 by $14.8774. The amount the family needs to live on for the next 20 years is $223,161.*
- **Emergency Fund** $_____
  $10,000 is recommended.
- **Education Fund** $_____
  If you don't already have a fund, how much will it cost for post-secondary education for your children?

TOTAL FUTURE NEEDS $_____

TOTAL PROJECTED IMMEDIATE/FUTURE NEEDS $_____

- **Canada Pension Plan** $_____
  Lump sum plus projected CPP income over survivor's lifetime. Can be obtained from your last CPP printout, available from Heath and Welfare Canada.
- **Other Pension Plans** $_____
  Multiply total yearly benefits by number of years you anticipate they will be used, taking into consideration the average lifespan is 80 years for women and 72 years for men.
- **RRSPs** $_____
  Total amount of RRSPs that could provide income,less income tax to be paid when they are cashed in.
- **Investments** $_____
  Includes stocks, bonds, GICs, mutual funds, etc.
- **Current Life Insurance** $_____
  The cash value portion of any existing policies that could be realized.
- **Personal Assets** $_____
  Jewellery, etc. that you will want sold in order to provide cash assets for your survivors.

TOTAL ASSETS $_____

YOUR LIFE INSURANCE NEEDS

Total Projected Needs $_____

\- Total Assets -$_____

= **Your Needs** =$_____

Present Value of One Dollar per Year

Year	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	Year
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.9009	.8929	.8850	.8772	.8696	.8621	.8547	.8475	.8403	.8333	1
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.7125	1.6901	1.6681	1.6467	1.6257	1.6052	1.5852	1.5656	1.5465	1.5278	2
3	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4868	2.4437	2.4018	2.3612	2.3216	2.2832	2.2459	2.2096	2.1743	2.1399	2.1065	3
4	3.9020	3.8077	3.7171	3.6299	3.5459	3.4651	3.3872	3.3121	3.2397	3.1699	3.1024	3.0373	2.9745	2.9137	2.8550	2.7982	2.7432	2.6901	2.6386	2.5887	4
5	4.8535	4.7134	4.5797	4.4518	4.3295	4.2123	4.1002	3.9927	3.8896	3.7908	3.6959	3.6048	3.5172	3.4331	3.3522	3.2743	3.1993	3.1272	3.0576	2.9906	5
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.2305	4.1114	3.9976	3.8887	3.7845	3.6847	3.5892	3.4976	3.4098	3.3255	6
7	6.7282	6.4720	6.2302	6.0020	5.7863	5.5824	5.3893	5.2064	5.0329	4.8684	4.7122	4.5638	4.4226	4.2883	4.1604	4.0386	3.9224	3.8115	3.7057	3.6046	7
8	7.6517	7.3254	7.0196	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	5.1461	4.9676	4.7988	4.6389	4.4873	4.3436	4.2072	4.0776	3.9544	3.8372	8
9	8.5661	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590	5.5370	5.3282	5.1317	4.9464	4.7716	4.6065	4.4506	4.3030	4.1633	4.0310	9
10	9.4714	8.9825	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4176	6.1446	5.8892	5.6502	5.4262	5.2161	5.0188	4.8332	4.6586	4.4941	4.3389	4.1925	10
11	10.3677	9.7868	9.2526	8.7604	8.3064	7.8868	7.4987	7.1389	6.8052	6.4951	6.2065	5.9377	5.6869	5.4527	5.2337	5.0286	4.8364	4.6560	4.4865	4.3271	11
12	11.2552	10.5753	9.9539	9.3850	8.8632	8.3838	7.9427	7.5361	7.1607	6.8137	6.4924	6.1943	5.9176	5.6603	5.4206	5.1971	4.9884	4.7932	4.6105	4.4392	12
13	12.1338	11.3483	10.6349	9.9856	9.3935	8.8527	8.3576	7.9038	7.4869	7.1034	6.7499	6.4235	6.1218	5.8424	5.5831	5.3423	5.1183	4.9095	4.7147	4.5327	13
14	13.0038	12.1062	11.2960	10.5631	9.8986	9.2950	8.7454	8.2442	7.7861	7.3667	6.9819	6.6282	6.3025	6.0021	5.7245	5.4675	5.2293	5.0081	4.8023	4.6106	14
15	13.8651	12.8492	11.9379	11.1183	10.3796	9.7122	9.1079	8.5595	8.0607	7.6061	7.1909	6.8109	6.4624	6.1422	5.8474	5.5755	5.3242	5.0916	4.8759	4.6755	15
16	14.7180	13.5777	12.5610	11.6522	10.8377	10.1059	9.4466	8.8514	8.3125	7.8237	7.3792	6.9740	6.6039	6.2651	5.9542	5.6685	5.4053	5.1624	4.9377	4.7296	16
17	15.5624	14.2918	13.1660	12.1656	11.2740	10.4772	9.7632	9.1216	8.5436	8.0215	7.5488	7.1196	6.7291	6.3729	6.0472	5.7487	5.4746	5.2223	4.9897	4.7746	17
18	16.3984	14.9920	13.7534	12.6592	11.6895	10.8276	10.0591	9.3719	8.7556	8.2014	7.7016	7.2497	6.8399	6.4674	6.1280	5.8178	5.5339	5.2732	5.0333	4.8122	18
19	17.2261	15.6784	14.3237	13.1339	12.0853	11.1581	10.3356	9.6036	8.9501	8.3649	7.8393	7.3658	6.9380	6.5504	6.1982	5.8775	5.5845	5.3162	5.0700	4.8435	19
20	18.0457	16.3514	14.8774	13.5903	12.4622	11.4699	10.5940	9.8181	9.1285	8.5136	7.9633	7.4694	7.0248	6.6231	6.2593	5.9288	5.6278	5.3527	5.1009	4.8696	20
21	18.8571	17.0111	15.4149	14.0291	12.8211	11.7640	10.8355	10.0168	9.2922	8.6487	8.0751	7.5620	7.1016	6.6870	6.3125	5.9731	5.6648	5.3837	5.1268	4.8913	21
22	19.6605	17.6580	15.9368	14.4511	13.1630	12.0416	11.0612	10.2007	9.4424	8.7715	8.1757	7.6446	7.1695	6.7429	6.3587	6.0113	5.6964	5.4099	5.1486	4.9094	22
23	20.4559	18.2921	16.4435	14.8568	13.4885	12.3033	11.2722	10.3710	9.5802	8.8832	8.2664	7.7184	7.2297	6.7921	6.3988	6.0442	5.7234	5.4321	5.1668	4.9245	23
24	21.2435	18.9139	16.9355	15.2469	13.7986	12.5503	11.4693	10.5287	9.7066	8.9847	8.3481	7.7843	7.2829	6.8351	6.4338	6.0726	5.7465	5.4509	5.1822	4.9371	24
25	22.0233	19.5234	17.4131	15.6220	14.0939	12.7833	11.6536	10.6748	9.8226	9.0770	8.4217	7.8431	7.3300	6.8729	6.4641	6.0971	5.7662	5.4669	5.1951	4.9476	25

2. TYPES OF LIFE INSURANCE

Term Insurance

Term is a simple form of life insurance that provides coverage for a specified time period -- anywhere from one year or until you reach your 100th birthday. At the end of that term, unless the policy can be renewed, coverage stops and it no longer has any value. If you die during the term of the policy, the life insurance company pays the amount for which you are covered (face value) to your beneficiaries.

Details

- There are no saving or investment opportunities; the policy will pay out only upon your death.
- *Level term* means the premium remains the same and the life insurance coverage remains the same for the period involved. As a result, your over-payments in earlier years cover the costs of higher risks in later years.
- Most term policies are *renewable term*, which means that your policy can be renewed without proof of insurability (that is, a medical certificate). However, the premium will go up when you renew. Renewability is an important feature for long-term flexibility and control.
- You can usually convert a term life insurance policy to a policy that can be continued for life and that may or may not have cash value. This is called *convertible term*.

With any kind of term life insurance, if a premium is missed, there is usually a grace period of at least 31 days before the policy is cancelled, and during which the coverage stays in force.

Reasons For Term Life

- You are in need of a large amount of insurance and term provides the largest amount of coverage for least cost in the short-run, and therefore does not tie up money you need for other purposes.
- You need insurance for a specified time period -- for example, while a bank loan is being paid off.
- You may have a decreasing need for life insurance as your mortgage is reducing, and children are growing up. You want basic insurance with no extras. However, consider the effects of taxation and inflation on your estate value -- life insurance coverage can preserve the estate values. Consider the expiration date -- perhaps *term to 100* provides the best coverage.

Whole Life Insurance

This type of policy provides cash value and insurance coverage in one plan. Coverage continues until you die, or you can surrender the policy and receive its cash value during your lifetime. Savings are an accumulation of higher premiums initially in order to be able to provide lifetime coverage on a level premium basis.

Details

- Premiums are higher initially than those of term life, such as 10 year renewable term, because you are premium-averaging over your lifetime, rather than for ten years.
- Your premiums are always the same, but the amount that goes into the cash value of the policy is normally very little initially, but increases over time.
- Whole life insurance should be considered a long-term form of protection.
- If you die while your whole life policy is in effect, your beneficiaries will receive the death benefit plus any accumulated dividends. Depending on the policy, they might also receive the cash value.

Dividends

- Dividends are paid out to people holding *participating* whole life insurance policies, when the insurance company can afford to do so. There is no guarantee on the dollar amount of dividends you will receive.
- If there is a dividend payment in any given year, it will be paid on the anniversary date of your policy; it can be cashed in, used to pay your next premium or to buy additional insurance, or left with the company to earn interest.
- Premiums for participating whole life insurance policies are higher than for non-participating policies, but historically over time have been cheaper when dividends are taken into consideration.

Cash Value

Usually, you can *borrow* up to 100 per cent of the cash value of your policy less one year interest, but it may take some years to accumulate a sufficient sum from which to borrow. There are several ways in which you can access this cash value:

- Surrender the policy and ask for its cash value. Your policy will no longer be in effect and you may have to pay taxes on part of the lump sum of money you receive.
- Borrow from the policy up to the available cash value -- if you can get a lower interest rate than financial institutions are offering. If you die or cash in the policy before the loan is repaid, the outstanding loan will be subtracted from the death benefit or payout.
- Use the cash value as collateral for a loan, giving your creditor the right to cash in the policy if you default on the loan.

- Use the cash value to pay the premiums on your policy. (This happens automatically if you don't pay your premiums.) Once the cash value is all used up, you must be prepared to resume premiums payments on your own.
- Use the cash value to buy an annuity or other investments when you retire.

Considerations

- If you are looking for an investment vehicle and have no need for life insurance, you can usually get higher returns from traditional investment opportunities.
- If you are unable to make payments for a period of time, the cash value of your policy will be used to do so. That way, you're guaranteed that coverage will continue until cash values are exhausted. This can be attractive to farmers when incomes fluctuate.
- Unless you have the option of gradually increasing the face value of your policy by a reasonable amount, you may find that in 20 to 40 years, inflation will have eroded your policy so that it is no longer adequate (a problem common to any insurance policy or retirement plan). A periodic review is recommended.

Purchasing Power of $100,000					
Inflation	**10 years**	**20 years**	**30 years**	**40 years**	**50 years**
2%	$81,700	$66,700	$54,500	$44,600	$36,400
4%	$66,500	$44,200	$29,400	$19,500	$13,000
6%	$53,900	$29,000	$15,600	$ 8,400	$ 4,500
8%	$43,400	$18,900	$ 8,200	$ 3,500	$ 1,500

Universal Life

Universal life provides lifetime coverage and in effect is a combination of term insurance and an investment fund. Unlike whole life, the two elements are kept separate, and you can see the cost of the life insurance component and the rate of return received on the investment fund. Providing the amount in this fund is below the benchmark set out in the Income Tax Act, the investment fund accumulates tax sheltered.

With this type of policy, you can choose (within limits) the annual premium you want to pay, and the balance after costs will be credited to your cash value or accumulation account. Legislation sets the limit on what can be tax sheltered and the insurance company sets the minimum premium.

Details

- You can make partial withdrawals from your accumulation account at any time.

- You can choose a policy that pays a set rate of interest as determined by the insurance company from time to time, or a variable policy in which you choose the investments and your returns fluctuate based on what they earn.
- Your survivors can receive either the policy's face value, or both the face value and the fund value -- depending on what you choose when you set up your plan.
- You can change your premiums to coincide with your cash flow, as long as there are funds available to cover costs in the investment (accumulation) fund.
- You can advance the maximum premium, and your policy may be "pre-deposited" in as little as three years -- and will stay in effect for your entire life if the assumed rate of return is attained or exceeded. You may eventually accumulate a rather substantial cash value depending upon the design of the plan.
- If you have sufficient funds in your accumulation account, you can skip payments if your budget is tight.
- The accumulation account builds up on a tax-sheltered basis, and withdrawals inside the plan to cover the annual mortality costs and administration costs are not taxable.

Considerations

- You will receive an annual statement of account so it is easy to follow your policy's progress.
- You must follow your policy closely because of its flexible nature and the number of options.
- If your premiums aren't high enough, you won't build cash value and you'll have the equivalent of a renewable term policy that is more expensive in the short run than a 10 year renewable term plan, for example.
- Hold-back or load charges are deterrents to cashing in your policy in the short run.
- These charges mean your cash value will grow slowly in the first five to 10 years, so the plan should be considered for long term use only.
- If you have missed payments and your cash value is not enough to pay your premium, you will have to come up with the money or your policy will lapse.
- Even if you make maximum premium deposits, you may still have to continue making payments for many years if interest rates drop or rates of return are significantly lower than those projected when the policy is taken out. Be aware of the guarantees in your policy.

3. YOUR LIFE INSURANCE POLICY

A life insurance policy is a legal contract between you and the life insurance company. Therefore, it's a wise idea to read your policy and understand it before you sign. If you have any questions, don't be afraid to ask your life insurance agent. After all, it's your right.

The first part of a policy sets out the basics -- including name of the company, face amount of the policy, premium payments, name of the beneficiary, type of policy, effective date, and duration of the policy.

The next section goes into finer detail on your specific policy. It will further discuss premiums, grace period should you default on payments, reinstatement if your policy lapses, the cash value, dividends, and regulations regarding suicide.

This part will also state that any policy changes requested by you or the insurance company be made in writing. As well, it includes a clause that gives you the right to select and change your beneficiary and settlement option, and to receive or use the policy's cash value and dividends. You can, in this section, assign these rights to another person.

The last part is the application for insurance, and is completed by you, your insurance agent, and, if necessary, a doctor. It requires information such as your marital status, hobbies, occupation, lifestyle habits, medical information, and what other life insurance policies you hold.

Based on this information, the insurance company determines your class of risk. It combines this information with your age, your sex and your smoking status to determine what your premiums will be.

Cancelling Your New Policy

Most companies offer 10-day rescission rights. In other words, you have a 10-day period following the delivery of a new policy to cancel it and obtain a full refund of your start-up premium.

You need to provide proof of cancellation within the 10-day period by:

- sending a registered letter to the company advising them of your decision;
- informing your agent.

Cashing In Your Policy

Whether or not you should cash in your policy depends on your personal situation. It should involve long-term planning.

It would be better to retain your policy if you have:

- A need or a desire for cash at death because normally cash can be provided more cheaply at death through life insurance than through any other means.

You would probably be better off cashing in your policy if:

- There is no need or desire for cash at death.

Replace your current life insurance policy only if you are completely satisfied that a new contract could more cost-effectively meet your needs. You would, of course, want to make sure the new contract is in place before you cancel the existing one.

Switching Your Policy

Switching from one insurance policy to another is generally not attractive because you will have to pay a second sales commission and start-up costs. As well, if you are substantially older or in poorer health than when you bought your policy, your premiums will go up -- or you may even be medically uninsurable.

Switching your cash-value policy could also mean a substantial loss if you haven't allowed the fund to mature because most of the commissions and start-up costs are covered in the first years of a policy.

Before you take any steps to switch from one life insurance policy to another, you should first talk to your insurance agent and determine whether your existing policy can be modified to suit your needs. If not, you should find out if you are still insurable.

Each situation is different, and the deciding factor is how much it will cost you. For example, if you have a $50,000 policy and now need a $100,000 policy, the way to decide is to calculate the cost of switching versus the cost of keeping the old policy and buying an additional one. You might get a price break on a single larger policy, but on the other hand, its cost may have risen substantially compared to when you bought your original policy.

If you've decided to go ahead and switch, the best time to do so is two or three days after the anniversary date of your policy. This will allow you to receive any yearly increases in cash surrender values, as well as dividends and interest for the previous year. There is a comparison form available in the industry. It should be completed and explained to you completely.

Taxation On Your Policy

The cash values of most insurance policies sold today are tax exempt until you cash it in. At that time, you may be taxed on any cash you receive and the process differs depending on when the policy was taken out. To assess your situation be sure to obtain information from the insurance company regarding taxation on cash received.

Death benefits from a life insurance policy are not taxable, and if received by a corporation can be passed through to the shareholders largely tax free, as well.

4. YOUR BENEFICIARY

A beneficiary is the person that you name to receive the death benefit of your insurance policy when you die.

Because your family's future, your farm and its future, your will, and your insurance policy are all very closely related, choosing your beneficiary requires some thought. In fact, naming your beneficiary should fit in with your overall estate plan so that the appropriate person will be selected -- someone who is aware of your plans and is able to carry them out. You should consult professionals to help you draft a will and name your beneficiary. Your farm management specialist, accountant, financial counsellor and lawyer should assist in drafting your will.

Just as important as who you name is when you name someone. It should be done as soon as possible. Otherwise, should you die, the death benefit of your policy will be paid to your estate. This can result in greater probate and legal fees, and may delay the receipt of funds by your family or those who will need it.

Your beneficiary must contact your insurance agent or the insurance company with a death certificate to trigger payout. There is no fee for this service if you go directly to your insurance company or through your agent.

If you should ever wish to change your beneficiary, you simply notify your insurance company and complete a form that it will supply; there is no fee for this service. However, if your beneficiary has been designated as "irrevocable", you can make the change only with the consent of the beneficiary.

Considerations When Naming Your Beneficiary

- If he/she is a member of the "protected class" (such as spouse, child, grandchild or parent of the insured), death benefit payments are free from creditors and others laying claim to the estate.
- If you are considering naming your children as beneficiaries, be aware that minors do not have access to the funds until they reach legal age. If you wish to provide financial protection for your children, a better solution would be to name a trustee (such as a trusted relative) and provide specific instructions in your will as to how you want the insurance benefits administered for the benefit of your children.
- If you designate your children as beneficiaries and then absolutely assign your policy to your spouse, he/she can cash in the policy or designate him/herself as beneficiary.
- Consider naming an alternative or contingent beneficiary. If the primary beneficiary predeceases you and no alternative has been named, the death benefit reverts to your estate.
- If you choose to give your life insurance to a charity, you may deduct your premiums as a charitable donation within certain limitations.

5. SHOPPING FOR LIFE INSURANCE

Life insurance agents can also be referred to as insurance representatives, underwriters, brokers, or even financial/estate planners if they have the qualifications. Some work for only one company, while others are independent and may represent several companies. All life insurance agents are paid on a commission basis for the services they are required to provide for you -- now and in the years to come. Historically they received the majority of this commission in the first year, but now, more and more companies pay commissions on a much lower but levelized basis.

Costs for similar kinds of insurance may vary dramatically between companies, so it's very important to compare -- and to know what you're comparing (see Section 2). This is where an insurance broker will be able to provide a valuable service that will save you time -- and money. If you are dealing with an agent who represents only one company, be sure that company's products best suit your needs. If not, you are under no obligation to buy a policy from that agent. Instead you should continue shopping around.

A Word On Mail Order Life Insurance

Mail order life insurance is easy to buy since you just complete a form and mail it, quite often without any medical documentation. However, it is advisable that you compare these premiums with those of other companies, because the costs are usually higher.

When you purchase mail order life insurance, you will not have the services of an agent, and access to service may be slow when you need it. Many mail order companies claim that their fees are lower because they don't have agents; however, their premiums must cover the cost of advertising and mailing, as well as the greater risks being covered. Surveys have shown that some mail order insurance companies do offer competitive premiums for younger age groups, but that it is more costly for the 40-plus groups.

6. TALKING THE LANGUAGE

The language of life insurance is sometimes confusing because different words and terms are often used to describe the same thing. Here is a list of some common terms used in the life insurance business and what they mean.

- **Accidental death benefit** (also called double indemnity benefit). An additional benefit paid in case of death by accident.
- **Accidental and sickness insurance.** Various kinds of insurance offering benefits for loss of income or for expenses resulting from accidental injury or sickness.
- **Actuary**. A professional trained in the mathematics and technical aspects of life insurance, pensions and related fields who calculates premiums, reserves and other values.

- **Agent** (also called an underwriter, life underwriter or sales representative). A sales and service person representing one or more life insurance companies, or carrying on business independently as a broker.
- **Annuity** (also life annuity). An investment contract that pays out regular amounts for a specified period or for life.
- **Beneficiary**. The person who is to receive the insurance money when the policyholder dies.
- **Cash value** (also cash surrender value). The amount payable in cash to the owner of a policy who voluntarily cancels the policy before it is payable by death or maturity. Not all policies have a cash value.
- **Chartered Financial Consultant (Ch.F.C.), Chartered Life Underwriter (CLU), Chartered Financial Planner (CFP)** are designations used by agents denoting completion of training to standards set by the Canadian Association of Insurance and Financial Advisors (CAIFA).
- **Convertibility**. A provision that allows one type of policy to be exchanged for another type without the policyholder having to provide proof of insurability.
- **Death benefit**. The benefit paid to the beneficiary when the policyholder dies.
- **Disability benefit**. A benefit added to some life insurance policies that provides for waiver of premium -- and sometimes payment of monthly income -- if the person insured becomes disabled.
- **Dividend** (also policy dividend). A refund available to the policyholder of part of the premium (on participating insurance only).
- **Endowment insurance**. A type of insurance policy which is payable at the end of a specified period (called the maturity date) if the policyholder is living; or payable to the beneficiary should the policyholder die before the maturity date.
- **Face amount** (also called the sum insured). The amount stated on the face of the policy that will be paid on the death of the person insured or at the maturity of the policy, if it is an endowment policy.
- **Grace period**. The period -- usually 30 or 31 days -- during which an overdue premium may be paid without penalty.
- **Group Life Insurance**. Life insurance issued on a group of people under a master contract, usually without medical examination. It is usually issued to an employer for the benefit of employees.
- **ICM** - Insurance Council of Manitoba
- **Interest-adjusted net cost index** (cost or surrender index). The index measures the cost of a policy if you surrender it after a specific period -- such as five, 10 or 20 years. This index takes timing value into account, as well as a stated rate of interest so it more accurately projects a policy's true costs.

- **Interest-adjusted net payment index** (payment index). This index measures the ongoing cost of owning your policy and it also measures the cost of your policy if you die while being insured.
- **Insurance Council of Manitoba**. The governing body for the licensing, educational standards and disciplining of agents, adjustors, and brokers in Manitoba.
- **Level premium insurance**. Life insurance that has the same premium from year to year. The premium is more than the actual cost of protection during the earlier years of the policy and less than the actual cost in later years.
- **Life insured** (may be the policyholder or owner as well). The person on whose death or disability the insurance becomes payable.
- **Limited payment insurance**. This is a type of life insurance providing coverage throughout life but premiums are payable only for a limited number of years, instead of until the death of the person whose life is insured.
- **Mortality rates.** Statistics used in relating life insurance to the number of deaths per year over a period of many years.
- **Non-participating insurance**. Policyholders do not share in any dividends or surplus earnings that may be distributed by the life insurance company.
- **Ordinary life insurance.** See "whole life insurance".
- **Paid-up insurance**. Life insurance on which all the required premiums have been paid.
- **Participating life insurance**. Policyholders are entitled to receive dividends.
- **Permanent life insurance**. See "whole life insurance".
- **Policy**. The printed document issued to the policyholder by the life insurance company that states the terms of the life insurance contract between them.
- **Policyholder**. The owner of the policy; may or may not be the life insured.
- **Policy loan**. A loan made by a life insurance company to a policyholder using the cash value of a policy as security for the loan.
- **Premium**. The payment(s) which a policyholder is required to make in order to keep a life insurance policy in force.
- **Proof of insurability**. Proving medically, financially and by your life style that you qualify to purchase life insurance.
- **Renewable insurance**. The provision allows the policyholder to renew a policy at the end of each term without having to provide proof of insurability.
- **Replacement**. Switching from one life insurance policy to another.
- **Rider**. An option on a basic policy that adds benefits, or an additional amount or type of coverage to the basic policy.

- **Settlements options**. The various ways that the death benefit or face amount of the policy can be paid to the beneficiary.
- **Straight life insurance**. See "whole life insurance".
- **Superintendent of insurance**. The head of a provincial government department that oversees the insurance industry.
- **Surrender**. To cancel or terminate a policy before its maturity date.
- **Term insurance**. Life insurance that provides protection for a specific length of time and is payable on the death of the policyholder within that time. If the policy expires before death occurs, coverage stops and the policy normally has no cash value:
- **Twisting**. An illegal practice whereby insurance agents encourage needless policy switches.
- **Whole life insurance**. Life insurance payable on the death of the person whose life is insured, whenever that occurs. Premiums are payable on a regular basis until death or a predetermined date and coverage is provided throughout life. This type of life insurance provides both protection and cash value. It is also called ordinary life, straight life and permanent life.

Notice To Reader

This information is general in nature and is intended as a guide only. Interpretation and utilization of this information is the responsibility of the user. No liability for decisions based on this publication is assumed. For application to a specific situation, a professional in the industry should be consulted.

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